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Development cooperation with middle-income countries

Report of the Secretary-General

Summary

Middle-income countries played a leading role in the global advancement towards the fulfilment of the Millennium Development Goals, in particular in meeting the target of halving global poverty. These countries remain crucial in the global efforts to implement the 2030 Agenda for Sustainable Development. However, middle-income countries still face significant challenges to achieve the Sustainable Development Goals along their economic, social and environmental dimensions. Many middle-income countries have witnessed substantial economic deceleration, or in some cases even a recession, in recent years, with a widespread stagnation or decline in productivity growth. High inequality, or even a rise in inequality, remains pervasive in middle-income countries. They are also faced with daunting challenges for sustainably managing the environment and natural resources, reducing pollution and combating climate change.

Many middle-income countries have adopted various policy measures to address these and other challenges. The national efforts can be further enhanced through better and more focused cooperation with the United Nations development system, the international financial institutions, regional organizations and other development partners.

The United Nations development system is actively engaged in cooperation with middle-income countries in multiple areas, but the transformative nature of the 2030 Agenda and the new challenges in the world call for greater efficiency, effectiveness and accountability in the ways in which the United Nations is engaged in middle-income countries, amid the reform of the United Nations development system.

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I. Introduction

1. In its resolution 70/215, adopted in 2015, the General Assembly requested the Secretary-General to submit a report on development cooperation with middle-income countries at its seventy-second session. The present report responds to that request.

2. As in the previous reports on the same topic (A/64/253, A/66/220, A/68/265 and A/70/227), the definition of middle-income countries in the present report refers to the World Bank's classification methodology, which classifies countries based on estimates of gross national income (GNI) per capita into the following groups: low-income economies (with a GNI per capita less than $1,005), lower middle-income economies (between $1,006 and $3,955), upper middle-income economies (between $3,956 and $12,235) and high-income economies (more than $12,236). Throughout this report the term "middle-income countries" refers to the combined lower and upper middle-income categories, which currently includes 109 countries. This analytical classification is also used in the World Bank's operational guidelines for determining lending eligibility. The United Nations development system does not use this classification for guiding cooperation activities; instead, the United Nations follows the classification of developed countries, developing countries, least developed countries and a few other country groups.

3. The present report is organized as follows: section II presents an assessment of macroeconomic trends to provide the background and an analysis of one key development challenge for middle-income countries, namely low productivity growth;[1] section III summarizes development cooperation activities the United Nations development system has operated in the past two years in middle-income countries, based on the inputs from the agencies, funds and programmes, as coordinated by the Development Operations Coordination Office and reports on major activities by the World Bank Group and the International Monetary Fund (IMF) in middle-income countries; section IV concludes with some recommendations.

II. Macroeconomic trends and development challenges of middle-income countries

A. Recent macroeconomic trends in middle-income countries (2015-2017)

1. Economic growth

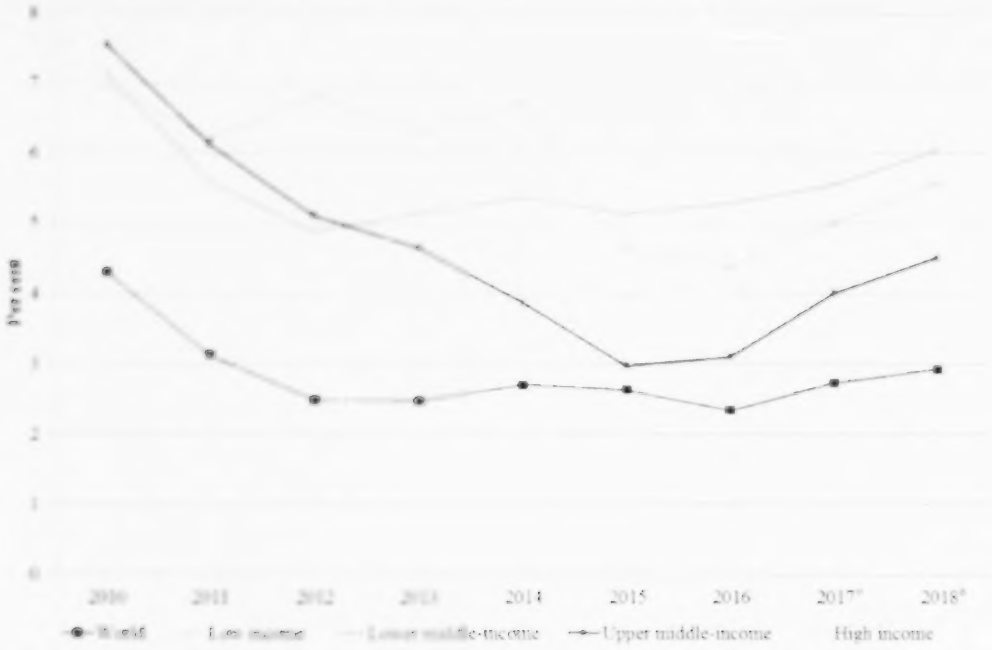
4. Economic growth in middle-income countries, which had noticeably slowed since 2011, started to improve gradually in 2016 and is projected to remain on an upward trend in the near term. This group of economies in the aggregate has expanded at a faster rate than the global average for decades, a trend that is expected to continue in the medium term. In the lower middle-income countries, growth in gross domestic product (GDP) was the strongest, exceeding 5 per cent in 2016 (figure I). A number of middle-income countries, however, including several large economies such as Argentina, Brazil and the Russian Federation, which experienced serious setbacks in the period 2015-2016, are likely to remain on a slow growth trajectory. Despite the relatively high per capita income in some of those economies, the fallout has tangible social repercussions. Moreover, several middle-income countries are considered to be caught in the so-called middle-income trap,

[1] Following the practice set in document A/64/227, each biennial report selects only one key development issue for in-depth analysis.

facing a protracted period of subdued growth rates (see A/68/265). At all levels of per capita income, middle-income countries continue to face serious challenges in all three dimensions of sustainable development, the specific challenges in relation to poverty, inequality and the environment having formed the key development challenge focus of the previous report of the Secretary-General (A/70/227).

Figure I

Annual real growth in gross domestic product, by country group (2010-2018)



Source: Department of Economic and Social Affairs.

* United Nations partial estimation.

** United Nations forecast.

5. The aggregate growth for middle-income countries masks significant regional heterogeneity (figure II). Middle-income countries in East and South Asia, despite a slowdown in China, continued to demonstrate the most vibrant activity in the period 2015-2017. Middle-income countries in Europe and Central Asia, by contrast, were adversely affected by the decline in oil prices and intensified geopolitical tensions, leading to recession in the Russian Federation, with negative regional spillovers. The current tentative recovery in those countries is subject to significant risks. Growth in the middle-income countries of Latin America and the Caribbean slowed dramatically in 2015-2017, with Argentina and Brazil falling into recession. A downward trend was also observed in the middle-income counties of Africa; among them, Nigeria has entered a recession and the South African economy has come to a standstill owing to a confluence of factors, including weak commodity prices, domestic political instabilities, weather-related shocks and regional conflicts, as well as the moderation in the external demand from China.[2]

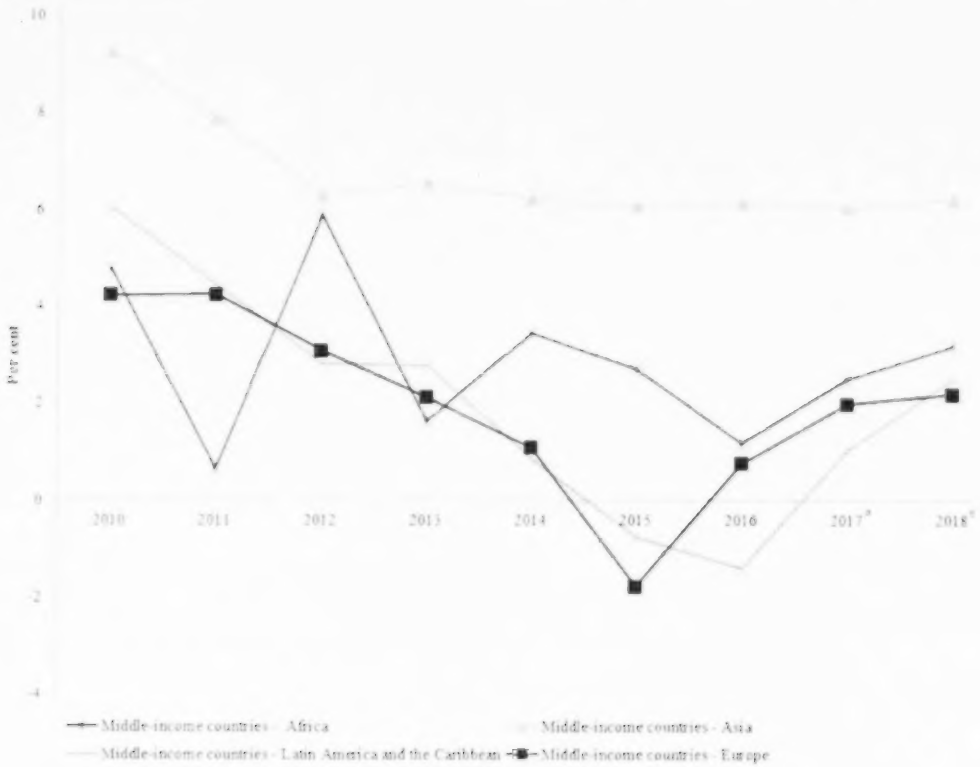
6. For middle-income countries as a group, growth in 2013-2016 was predominantly driven by private consumption, while investment made a relatively

[2] *The World Economic Situation and Prospects 2017* and its mid-2017 update contain more details about the economic outlook for regions and countries.

low contribution. This growth pattern may prove unsustainable in the longer run, as it has been accompanied by a build-up of household indebtedness. At the same time, productivity growth in middle-income countries has slowed sharply in recent years (see sect. II.B).

Figure II

Annual real growth in gross domestic product of middle-income countries, by region (2010-2018)



Source: Department of Economic and Social Affairs.

[a] United Nations partial estimation.

[b] United Nations forecast.

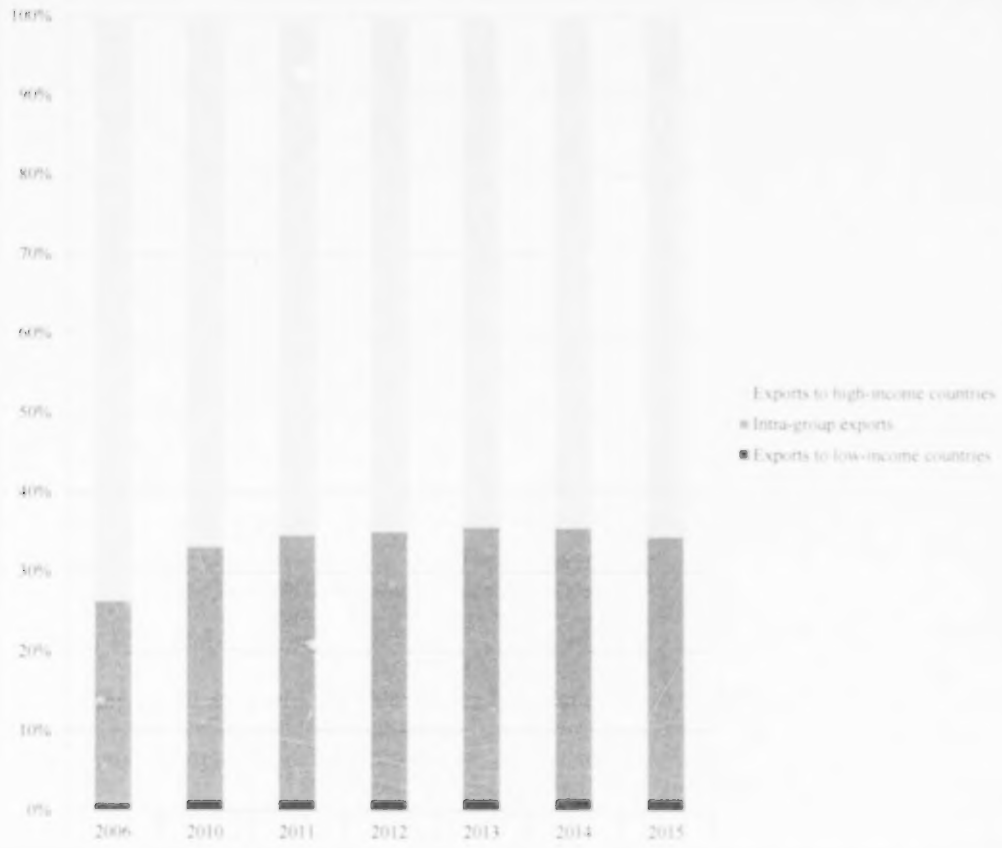
2. International trade

7. The international trade of middle-income countries was sluggish amid the overall global trade slowdown in 2015-2016, impeded by volatilities in financial markets, commodity prices and exchange rates, as well as increases in trade-restrictive measures and the diminishing pace of expansion of global value chains. Exports of middle-income countries have nevertheless started to revive since mid-2016. Merchandise exports of middle-income countries in Asia expanded at a robust rate; however, middle-income countries in Africa saw either a sluggish recovery in their export volumes or, in some cases, such as Nigeria, a sharp contraction caused by disruptions in oil production as a result of conflicts.

8. Over the past decade, the share of intra-group trade of middle-income countries in their total trade has gradually increased. For example, total intra-group exports increased from about 25 per cent in 2006 to around 33 per cent in 2015 (figure III). At the same time, for most middle-income countries little progress was

recorded in diversifying their export composition and export destinations, and countries remain vulnerable to sudden changes in external demand.

Figure III
Shares of merchandise exports of middle-income countries in dollar terms by destination, 2006-2015



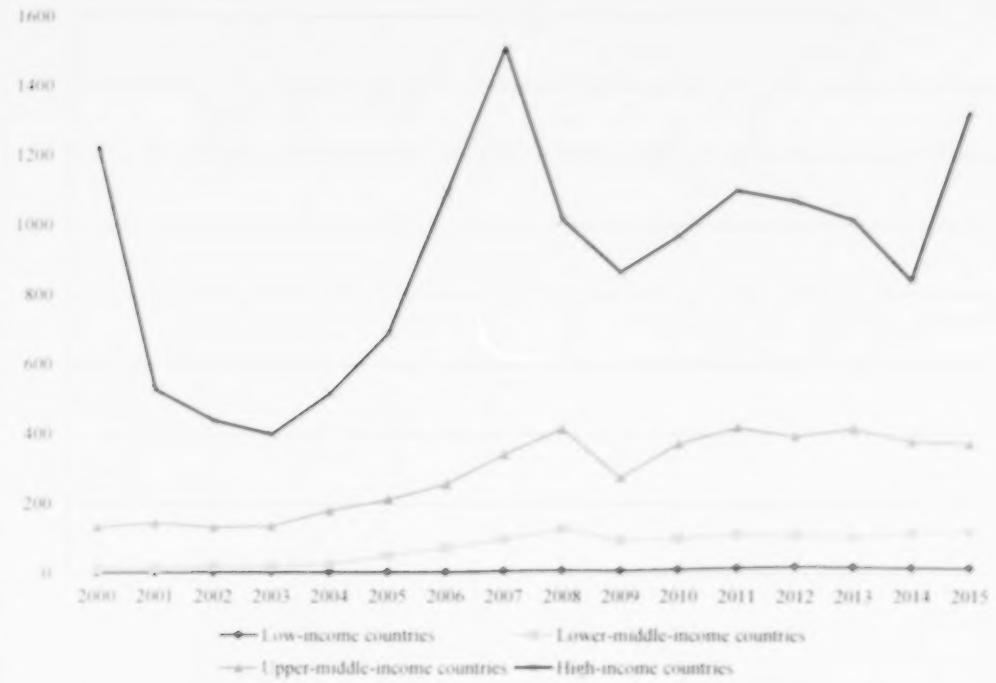
Source: Department of Economic and Social Affairs calculation, based on data from the United Nations Conference on Trade and Development.

3. Capital flows

9. Total net financial flows to middle-income countries remained negative in 2015-2016, although total net foreign direct investment (FDI) flows remained positive. FDI inflows to middle-income countries have averaged 2 per cent of GDP since 2010 and remained relatively stable in nominal terms until 2015 (figure IV). Total capital flows to middle-income countries remain well below their historical peaks. However, they rebounded in late 2016 and early 2017, especially flows to Asia and Latin America, reflecting improved prospects for some regions.

Figure IV
Foreign direct investment inflows by country group (2000–2015)

(Billions of United States dollars)



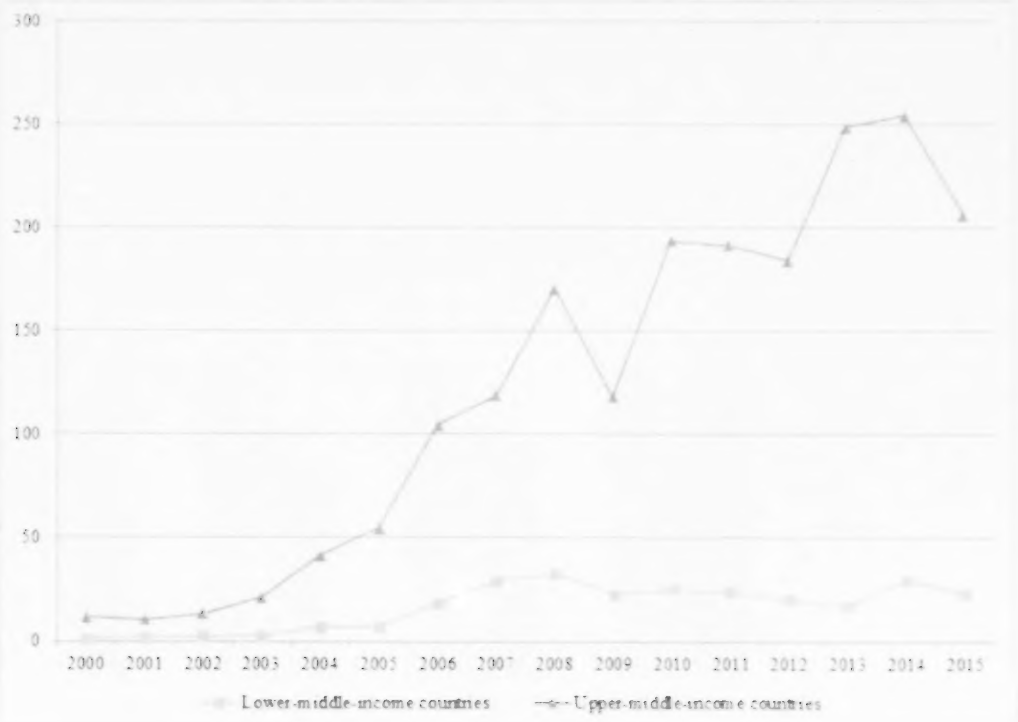
Source: UNCTADstat.

10. Outward FDI from the middle-income countries group has increased in recent years, in part reflecting stronger activity within the framework of South-South cooperation (figure V). Nonetheless, across different income groups, most capital flows have been moving to high income countries (table).

Figure V

Foreign direct investment outflows from middle-income countries (2000–2015)

(Billions of United States dollars)



Source: UNCTADstat.

Table

Outward direct investment stock in 2015 by country group

(Millions of United States dollars)

	Origin			
Destination	*Low-income*	*Lower middle-income*	*Upper middle-income*	*High-income*
Low-income	266	540	9 452	22 078
Lower middle-income	349	2 380	166 197	465 507
Upper middle-income	12	22 489	200 890	2 895 720
High-income	15	64 810	764 557	22 368 459

Source: Department of Economic and Social Affairs calculation, based on data from the International Monetary Fund (IMF) Coordinated Direct Investment Survey database.

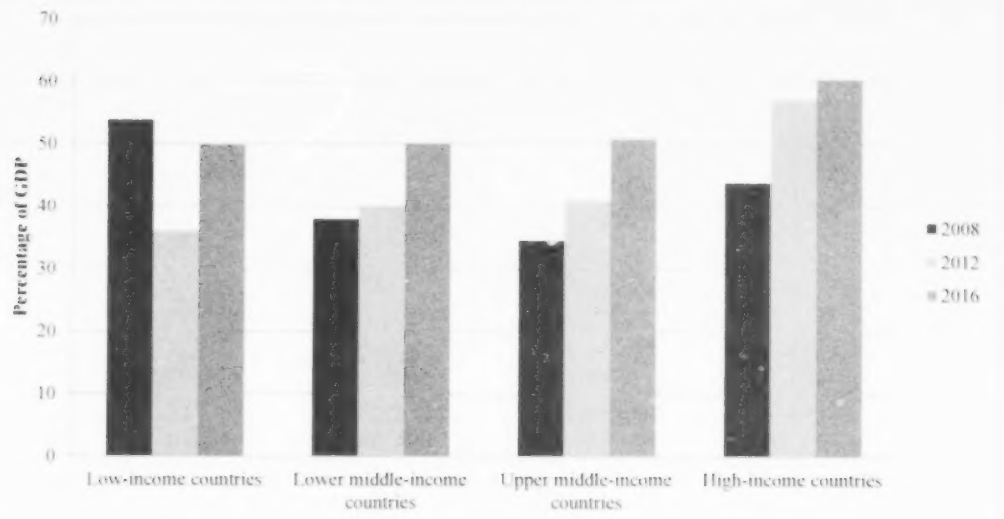
Note: Low-income category composed of 5 countries, lower-middle-income category composed of 12 countries, upper-middle-income category composed of 15 countries and high-income category composed of 41 countries.

4. Trends in public debt

11. Public debt for middle-income countries increased in the period 2015-2017, as stagnating or contracting output in several major economies in 2015 and lower commodity revenues led to higher fiscal deficits. Despite some improvements in growth and fiscal balances in 2016 and generally low borrowing rates, the ratio of

public debt to GDP for the middle-income countries as a group has increased from around 48 per cent in 2015 to a projected 51 per cent in 2017 (figure VI). Meanwhile, public and publicly guaranteed debt service for middle-income countries has increased from around 0.8 per cent of GNI in 2013 to around 1.19 per cent of GNI in 2015, partly reflecting the rise of interest rates by the United States Federal Reserve and appreciation of the United States dollar. Higher public debt levels may have an adverse impact on the fiscal space needed to address the challenges to sustainable development.

Figure VI
General government gross debt by country group (average)



Source: Department of Economic and Social Affairs calculation, based on data from IMF.
Note: For the period chosen, the data does not cover Libya; Macao, China; Mongolia; Nauru; Palau; South Sudan; the Syrian Arab Republic; Timor-Leste; and Tonga.

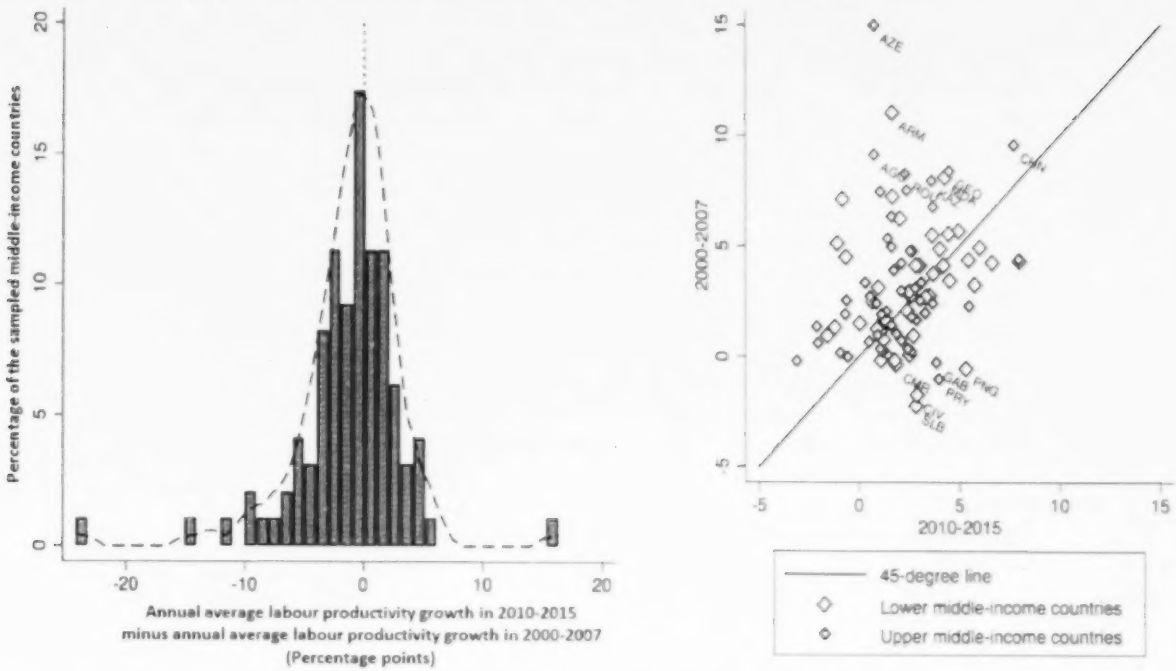
B. Need to boost productivity growth in pursuit of sustainable development in middle-income countries

12. Since the global financial crisis of 2008-2009, there has been a widespread stagnation or decline in labour productivity growth among middle-income countries. Around 60 per cent of 98 sampled countries saw lower annual average labour productivity growth in 2010-2015 compared with the pre-crisis period of 2000-2007 (figure VII). Even among the middle-income countries with faster labour productivity growth, the extent of improvement was relatively modest. Higher productivity growth in several lower middle-income countries in the post-crisis period merely represents a recovery from the observed decline in productivity in the pre-crisis period of 2000-2007.

13. Among the regions, Africa, the Commonwealth of Independent States, South-Eastern Europe and Western Asia have seen a widespread slowdown in labour productivity growth, while about 60 per cent of middle-income countries in the Asia-Pacific region and Latin America and the Caribbean have at least maintained pre-crisis levels of productivity growth.

Figure VII

Labour productivity growth in middle-income countries, 2000-2007 versus 2010-2015



Source: Department of Economic and Social Affairs calculation, based on data from the World Bank World Development Indicators.
Note: Left panel: difference between 2010-2015 and 2000-2007 in annual average labour productivity growth; right panel: labour productivity growth (annual average percentage). The data cover 98 sampled middle-income countries.

14. The current instance of slowdown in productivity growth in many middle-income countries may significantly undermine national efforts for sustainable development. The United Nations estimates that if the global growth trajectory remains in its current path, which is likely if productivity growth does not pick up, and the income inequality situation fails to improve, around 6.5 per cent of the world's population would still live in extreme poverty by 2030, a significant number of them in middle-income countries. Slow productivity growth would adversely affect not only the achievement of Sustainable Development Goal 1 on eradicating poverty, but also progress towards other Sustainable Development Goals. For example, it would undermine progress in achieving Goal 8 on decent work and economic growth, including specific targets on achieving higher levels of economic productivity and sustaining per capita economic growth. Conversely, progress on achieving multiple Goals would also support productivity growth. For example, measures to achieve Goal 3 on health and well-being, Goal 4 on quality education, Goal 5 on gender equality and Goal 9 on infrastructure, industrialization and innovation would improve labour productivity. Middle-income countries need to strengthen productivity growth in the broad context of implementing the 2030 Agenda.

15. Several factors underlying the observed slowdown in growth in labour productivity in middle-income countries are given below. Labour productivity growth is determined by three immediate drivers: labour quality, available capital per worker (capital deepening) and efficiency in allocating and utilizing productive factors (total factor productivity). Reflecting weaker economic efficiency gains and technological diffusion, the contribution of total factor productivity to labour

productivity growth has broadly declined in middle-income countries during the post-crisis period, continuing a broader trend that began in 1990s (see figure VIII), particularly in middle-income countries that previously experienced rapid labour productivity increase, many of them in Asia, the Pacific, Central Asia and Europe. Despite the slowdown in investment growth, however, the relative contribution of capital deepening to labour productivity growth has been rising in the post-crisis period, which implies that capital deepening has decelerated at a slower pace when compared with total factor productivity growth.

16. Tepid economic growth and an uncertain policy environment in recent years have led to a slowdown in investment growth and deterioration in investment quality, which in turn restrains capital deepening and total factor productivity growth. Figure IX illustrates clearly the positive link between investment and labour productivity growth among middle-income countries. In commodity-dependent economies, the collapse of the oil price in 2014, amid a multi-year decline of overall commodity prices, has led to a significant decline in investment growth. As a result, commodity-dependent economies have, in general, seen lower productivity growth than other middle-income countries during the post-crisis period, with the trend being particularly clear for fuel exporters (see figure IX).

Figure VIII

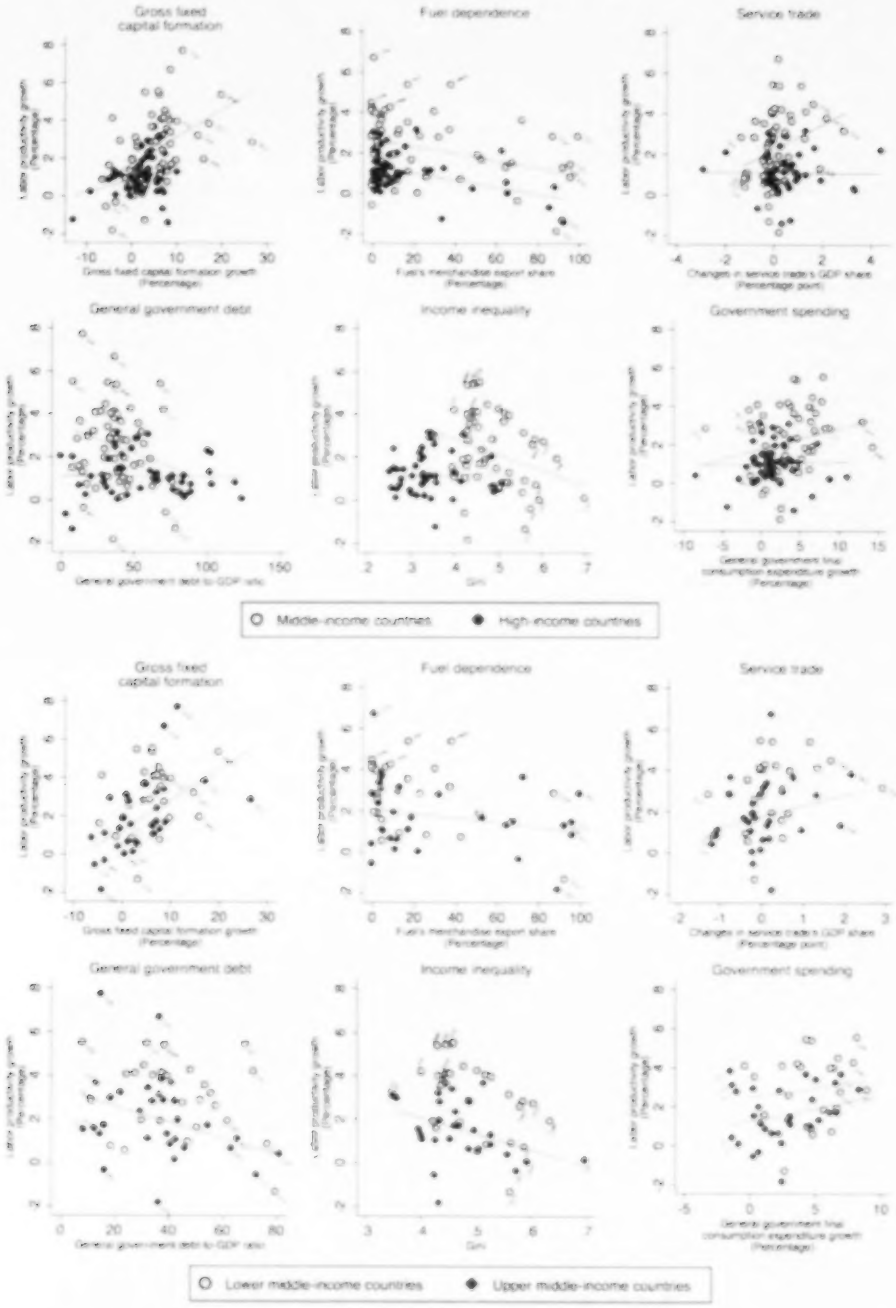
Contribution to labour productivity growth in middle-income countries, 1990-2016

Source: Department of Economic and Social Affairs calculation, based on data from the Conference Board Total Economy Database.

Note: The data cover 43 sampled middle-income countries. Each line shows the median of its respective factor's contribution to labour productivity growth.

Figure IX

Labour productivity growth and selected variables (2010-2015 average)



Source: Department of Economic and Social Affairs, based on data from Conference Board, Total Economy Database; Global Consumption and Income Project; IMF *Fiscal Monitor*; Statistics Division, National Accounts Main Aggregates Database; and World Bank, World Development Indicators.

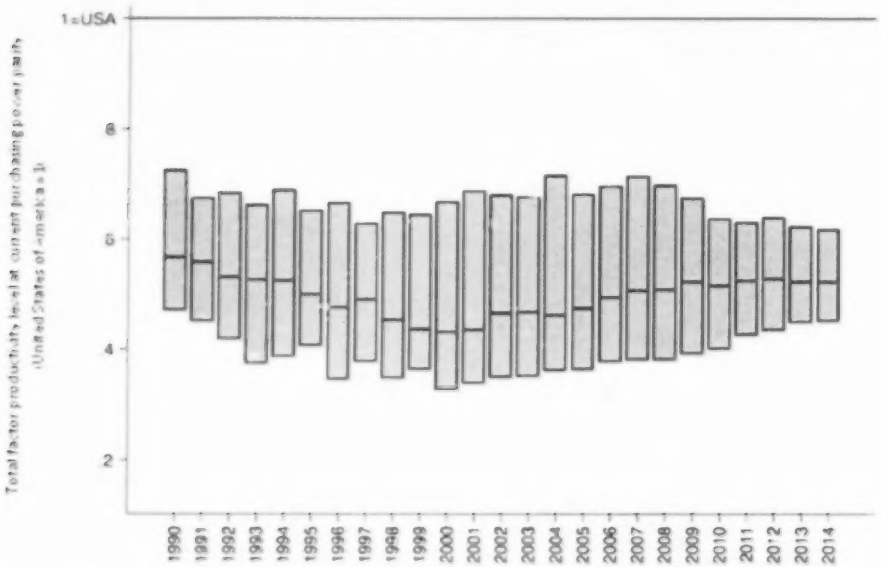
Note: Top panel shows middle- and high-income countries. Bottom panel shows lower- and upper-middle-income countries. Depending on the variables of interest, the data cover 57-60 sampled middle-income countries and 43-49 sampled high-income countries.

17. The global financial crisis also left a scarring effect on middle-income countries' productivity growth. The credit crunch that followed the crisis constrained corporate financing and disrupted investment plans. Smaller and younger firms in middle-income countries, with weaker access to alternative financing sources, were especially affected. Weak international capital flows to middle-income countries further exacerbated the problem of inadequate financing. The uncertain international policy environment, slower-than-expected progress in economic reforms and broader instability in some large middle-income countries were perceived as risks by international investors. Further intensification of those risks and the continued widening of risk-adjusted interest rate differentials between the United States of America and middle-income countries, added further pressure on capital outflow from the latter.

18. Weak global trade has also contributed to the slowdown in labour productivity growth. For middle-income countries, the link between trade and productivity is particularly notable in terms of services trade (see figure IX). Trade affects productivity not only through its impact on export sector investment, but also through its role as a channel for technology and knowledge diffusion towards middle-income countries, where productivity levels are typically well below those in developed countries (see figure X). Trade increases opportunities for firms to absorb advanced technology that is often embodied in goods and services. Through trade, firms can also boost productivity by creating economies of scale, reducing input costs through importing cheaper foreign intermediates and introducing new production techniques. In a non-discriminatory, rule-based trade environment, international competition also raises overall productivity through incentivizing domestic firms to innovate and making low-productivity ones exit the market.

Figure X

Total factor productivity in middle-income countries, relative to the United States of America (1990-2014)



Source: Department of Economic and Social Affairs, based on data from the Penn World Table, version 9.0.

Note: The data cover 41 sampled middle-income countries. For each box, the top, the horizontal line within and the bottom, respectively, denote the seventy-fifth, fiftieth and twenty-fifth percentile among the sampled middle-income countries in the selected year.

19. The significant post-crisis increase in public debt levels in many middle-income countries and private debt levels in some of them has also likely restrained investment and productivity growth (see figure IX). A significant rise in debt may lead to higher borrowing costs, and a rise in public debt may raise the expectation of higher future taxes, both of which hamper investment. High public debt levels also tend to be associated with higher growth volatility, partly reflecting the limited options for Governments of countercyclical fiscal policy during economic downturns; such volatility also deters investment. High income inequality, associated with lower social and political consensus and greater economic instability, may have also discouraged investment and hampered longer-term productivity growth. Poor households are usually unable to invest in education and accumulate human capital.

20. Climate change is also increasingly becoming a determinant of productivity in middle-income countries. Extreme weather shocks directly affect productivity through destruction of infrastructure and labour force displacement. A number of middle-income countries have sizeable sectors that are exposed to climate, such as agriculture, mining and construction.

21. Several policy options may be considered to boost productivity growth, including more proactive fiscal policy measures where fiscal space is available. Figure IX shows that middle-income countries with higher government spending growth tend to have higher labour productivity growth. Effective fiscal policy could help to advance productivity through investments in, among other things, infrastructure, education and vocational training and health care, to build the capabilities of a typically younger workforce and fully realizing the demographic dividend. Fiscal policy could also support research and development activities to advance the domestic technological frontier. Improving tax administration and tax codes can also remove resource misallocation caused by discriminatory tax incentives. This could help to improve overall productivity by allocating resources to more productive economic activities, deterring investment in low-productivity projects with low overall social returns. This is particularly important for countries experiencing rising public debt levels. In this light, Governments should ensure fiscal policy effectiveness in promoting economy-wide productivity. For example, given that not all research and development activities are equally innovation-based productivity growth, fiscal support may be prioritized for those focused on general-purpose technology, such as information technology, that can benefit a wide range of economic activities.

22. Concerted efforts are needed in the pursuit of structural transformation towards more productive sectors. While industrial sectors and high-skill service sectors tend to benefit more from technologies that improve labour productivity, other sectors, such as low-skill service sectors, have limited productivity growth potential. The observed impact of low commodity prices on the productivity of commodity-dependent countries further highlights the need to diversify economic activities. Devising a development strategy that gradually shifts the economy towards a diverse set of productive industrial and service sectors is crucial for long-term productivity growth. Meanwhile, agricultural sectors need to see continued productivity growth, as agriculture still accounts for sizeable output and employment in many middle-income countries.

23. Productivity can also be improved through faster diffusion of innovations from high-productivity countries and firms to others. Middle-income countries should improve their ability to leverage international trade and FDI as channels for access to technology, knowledge and skills. New digital technologies are among those technologies that are changing rapidly and bringing the potential to raise productivity for firms that are able to adopt them successfully. At the domestic

level, policies in areas such as intellectual property rights, private sector-academia collaboration, education and skills development need to be calibrated to promote the development of national capabilities, innovation and technology transfer and diffusion, which accelerate the catching up of low-productivity firms.

24. Raising aggregate productivity growth in itself may not necessarily lead to broad-based improvement in well-being. Decent job creation is central in ensuring the positive link between productivity growth and improvement in well-being. If technology improves only the productivity of high-skilled workers and/or displaces middle-skilled workers, it could exacerbate existing wage gaps. Moreover, if productivity growth outpaces wage growth, this could lead to higher income inequality, as capital tends to be more unevenly distributed across the population. As many middle-income countries continue to see high and/or rising income inequality, it is crucial to ensure that future productivity gains are shared equitably, which will in turn have a positive feedback effect on productivity growth.

III. Cooperation of the United Nations system with middle-income countries[1]

A. Activities of the United Nations system in middle-income countries and major accomplishments

25. The United Nations is actively engaged in development cooperation with middle-income countries in multiple areas, delivering real results, in line with the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, the Paris Agreement under the United Nations Framework Agreement on Climate Change, the New Urban Agenda and national development programmes, utilizing a wide range of instruments, including provision of technical assistance, policy advice and capacity development. A survey of programme country Governments is being conducted by the Department of Economic and Social Affairs in the second half of 2017 that will provide an up-to-date assessment of the scope, efficiency and relevance of the United Nations operational activities in programme countries, including middle-income countries, and the alignment of its activities with the development needs of the countries and the internationally agreed development goals. The results of the survey will be presented to the Economic and Social Council as part of the report of the Secretary-General on the implementation of the quadrennial comprehensive policy review.

26. According to the results of the earlier survey, conducted in 2015, the overwhelming majority of respondents agreed that the activities of the United Nations system were closely aligned with the respective country's development needs; at the same time, a number of priority areas for furthering development cooperation with the United Nations system were identified, namely, support in the areas of the environment, sustainable development, health, agriculture and rural development, as well as in economic growth and employment.

27. During the period under review (2015-2017), the United Nations has been providing active support to middle-income countries in a variety of areas. Some selected examples, provided by various United Nations organizations and reflecting only a small fraction of that support, are listed below, grouped by the important areas of cooperation.

[1] A comprehensive list of inputs from the United Nations system will be available from https://www.un.org/development/desa/dpad (forthcoming).

28. The United Nations has actively engaged with middle-income countries in providing support for good governance, improving the quality of public administration, promoting human rights, achieving gender equality and developing social protection. For example, the United Nations Development Programme (UNDP) has actively supported middle-income countries in the Western Balkans and in the Commonwealth of Independent States in strengthening their national policy and legislative frameworks and institutions, electoral processes and the legislative functions of national parliaments, and national anti-corruption prevention institutions, including in Bosnia and Herzegovina, the Republic of Moldova and Serbia. UNDP, in cooperation with other organizations, has also worked on promoting the implementation of the Convention on the Rights of Persons with Disabilities in Armenia, Belarus and Turkmenistan. As part of its programme on promoting and protecting women migrant workers' labour and human rights through engaging with international and national human rights mechanisms to enhance accountability, which is funded by the European Union, the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) has worked closely with Mexico, the Republic of Moldova and the Philippines to strengthen migration governance in line with the existing normative frameworks. In Latin America and the Caribbean, UN-Women and a few other organizations are implementing a joint regional initiative to eliminate child marriage and align the age of marriage with international norms. The United Nations Office on Drugs and Crime continued providing, upon request, technical assistance in terrorism prevention to several middle-income countries, and legislative services for the revision of anti-terrorism legislation were provided to several States, including Iraq and Sri Lanka.

29. The Office of the Special Adviser on Africa prepared several analytical policy reports on important issues straddling the peace, security and development nexus to provide information about current and emerging challenges to Africa's development and national and international efforts aimed at addressing them. Those reports emphasized the need for a strengthened focus on the nexus between development, peace, security and human rights in United Nations activities to achieve an inclusive structural transformation, in particular, in middle-income countries in Africa.

30. The Office of the United Nations High Commissioner for Refugees (UNHCR), in close cooperation with humanitarian and development partners, has addressed the spillover effects of the conflict in the Syrian Arab Republic on neighbouring Egypt, Iraq, Lebanon, Jordan and Turkey. Owing to the speed, scale and complexity of refugee arrivals, UNHCR has adopted new operational strategies and systems to assist Governments with alleviating the consequent socioeconomic pressures. The prime example of this is the Regional Refugee and Resilience Plan, which is closely aligned with the Government-led national resilience programmes and operationalizes integrated humanitarian and development responses.

31. The United Nations Population Fund (UNFPA) supported 77 middle-income countries in developing guidelines, protocols and standards for health-care workers for the delivery of high-quality sexual and reproductive health services for adolescents and youth, and also assisted in gender-based violence prevention, protection and response and increased investments in marginalized adolescents and youth.

32. The United Nations has also actively supported the development of policies to improve inclusive and sustainable growth in middle-income countries. In the Philippines, UNDP commissioned poverty studies and dialogues that influenced the formulation of the country's long-term vision framework and the Philippine development plan 2017-2022. In Fiji, where the lack of access to financial services by Pacific islanders has been a major impediment to enhancing livelihood

opportunities and safety nets for women and youth, a joint programme by UNDP and the United Nations Capital Development Fund supported innovative financial products and digital services to reach rural and underserved markets in six countries.

33. The United Nations Industrial Development Organization (UNIDO) has continued to carry out activities targeting inclusive and sustainable industrial development in middle-income countries, leading to the creation of jobs through industrial diversification and upgrading, and increased sustainable production and consumption using smart business models. The UNIDO Programme for Country Partnership is an innovative partnership model for accelerating inclusive and sustainable industrial development at the country level. In 2016, the pilot project under the Partnership was launched in Peru with a focus on quality and innovation, value chain development, sustainable industrial parks, industrial resource and energy efficiency, and renewable energy. In June 2017, the Partnership approach was expanded to Kyrgyzstan. To foster development along the new Silk Road economic belt, UNIDO is providing analytical and advisory inputs to middle-income countries in Central Asia on various aspects of business infrastructure.

34. The Food and Agriculture Organization of the United Nations (FAO) works with middle-income countries to achieve sustainable development, while addressing critical challenges such as climate change, loss of biological diversity and land degradation. FAO is working with productive sector partners in China to mainstream environmental objectives into water and forest management investment programmes. FAO has supported an enabling environment for investment in the food system in Eastern and Central Europe and North Africa, by facilitating policy dialogue between government and key value chain actors. For example, FAO recently helped Ukraine to revise its food safety standards to boost dairy sector exports to the European Union and to explore new export opportunities.

35. The International Telecommunication Union (ITU) continued to support middle-income countries in strengthening their existing communications systems, developing infrastructure to optimize the use of the system and developing and implementing adequate policy and regulation, in particular in switching from analogue to digital television.

36. In the area of mainstreaming support to South-South cooperation and triangular cooperation, the United Nations system has fostered and promoted the exchange of knowledge and technical know-how between middle-income countries. In 2016, UNDP adopted its first corporate strategy on South-South and triangular cooperation, which was developed in consultation with several Member States. UNDP continues to facilitate exchanges of the extensive knowledge on poverty eradication and sustainable development, in particular through its global development solutions exchange system, called "SSMart for SDGs", launched in 2016.

37. Among the regional commissions, the Economic and Social Commission for Asia and the Pacific (ESCAP) works with middle-income member countries in the region to support deeper intraregional trade and investment in the region and to reaffirm the primacy of the multilateral trading system. The Economic Commission for Europe (ECE) assists middle-income countries in its region to reap the benefits of international trade through capacity-building activities on trade facilitation. The United Nations Special Programme for the Economies of Central Asia, a joint programme of ESCAP and ECE, serves as a platform to facilitate economic cooperation among Afghanistan (a least developed country), Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

38. The United Nations Conference on Trade and Development (UNCTAD) has been supporting 54 African countries, including 26 middle-income countries, in

their negotiations to establish the Continental Free Trade Area, a typical example of South-South cooperation, which was officially launched in June 2015.

39. In 2015, UNFPA established a South-South project with the main objectives of mainstreaming South-South and triangular cooperation and proposing innovative alliances with developing countries to accelerate the implementation of the Sustainable Development Goals, aiming in particular to enable the exchange of evidence-based policies and strategies to harness the benefits of the demographic dividend and develop policy and regulatory frameworks related to universal access to sexual and reproductive health. The United Nations System Staff College has been active in designing and organizing learning, training and knowledge management on global partnerships, of which South-South and triangular cooperation form an integral part. The United Nations Office for South-South Cooperation and the Staff College have partnered to build the capacity of the main actors in two regions (the Arab States, and Europe and the Commonwealth of Independent States) towards a common understanding of the theory and practice of such cooperation.

40. In the area of support and assessment of national priorities, including formulation and implementation of national sustainable development strategies and other development plans and policy documents, UNIDO has recently adopted several country programmes in middle-income countries, including in Cuba (2016-2020), targeting improvement of the business environment and sustainability and of industrial competitiveness and the attraction of foreign investment. The country programme for 2016-2020 for El Salvador is focused on two main components: enhancing industrial policy implementation by fostering improved performance in selected industrial value chains, and innovative approaches for an efficient use of resources and cleaner industrial production. In Africa, UNIDO is channelling efforts towards mitigating inequalities by aligning its work with the various international agendas and is also focusing on attracting foreign investment and promoting best technologies.

41. UNCTAD has supported middle-income countries in their efforts to formulate and implement national sustainable development strategies through national trade policy framework reviews, some of which include a services policy review conducted at the same time. In the period 2015-2016, trade policy framework reviews were conducted for Algeria, Angola, Botswana, Jamaica, the Dominican Republic, Namibia, Tunisia, Panama and Zambia. UNCTAD also conducted several services policy reviews to assist middle-income countries in assessing their services economy and trade in order to develop competitive productive capabilities in the services sector and to better engage in international trade negotiations. It also supports middle-income countries in their process of accession to the World Trade Organization.

42. In Asia, ESCAP supports national Governments in determining national development priorities and to formulate national development plans. The 2016 *Asia-Pacific Countries with Special Needs Development Report: Adapting the 2030 Agenda for Sustainable Development at the National Level* presented a unique analytical framework to determine national development priorities to achieve the 2030 Agenda. The report presented computations of capacity to implement the Sustainable Development Goals for Bangladesh, Kazakhstan and Fiji. In the Pacific, ESCAP provided technical support to Kiribati to prepare its development plan for 2016-2019. In India, ESCAP collaborated with the United Nations country team to provide strategic, evidence-based analysis and policy support to transition to and jump-start the implementation of the 2030 Agenda. ESCAP has provided support for the formulation and implementation of national strategies and key policy documents, such as the 2016 national policy for women and national guidelines on

disability-inclusive disaster risk reduction, in addition to supporting the development of road maps to advance gender equality and women's empowerment, in Bangladesh, Bhutan, India, Pakistan, Sri Lanka and Maldives.

43. UNFPA is actively supporting brokerage of expertise, convening of partners and advocacy for strengthening health systems and providing support for monitoring of international norms, standards and agreements. UNFPA is monitoring and using both the income ratio of the poorest to richest quintiles of the population and the skilled birth attendance rate for the poorest quintile of the population to make informed decisions on resource allocation and targeted intervention.

44. The Joint United Nations Programme on HIV/AIDS (UNAIDS) 2016-2021 strategy towards the Sustainable Development Goals target of ending the AIDS epidemic by 2030 recognizes the importance of middle-income countries and the unique challenges they face. Confronted with the reality that countries entering middle-income status may not be able to access the external funding channels previously available to them for their HIV programmes, UNAIDS and other key stakeholders have developed guiding principles for the development of compacts between country government departments or representatives and donors.

45. The World Health Organization (WHO) plays an active role in supporting middle-income countries in achieving the health-related Sustainable Development Goals. The technical cooperation activities of WHO are defined in the country cooperation strategies. In Europe, WHO uses an alternative tool, called a biennial collaborative agreement, for collaboration with countries. The support WHO has provided to countries has evolved from direct operational support towards upstream policy advice on implementing agreements and conventions agreed by the WHO governing bodies and WHO offices at the subregional, regional and headquarters levels.

46. The World Food Programme (WFP) new strategic plan for the period 2017-2020 outlines how WFP will operationalize actions to support national Governments to achieve the Sustainable Development Goals at the country level. Through five-year country strategic plans, which are based on country-owned, national zero-hunger strategic reviews, WFP identifies the national targets under the Goals that it is well-placed to support. WFP operations at the country level support emergency preparedness and response and address residual and unequally distributed food insecurity, urban hunger and the double burden of malnutrition.

47. The United Nations Environment Programme (UNEP) is working closely with middle-income countries in all regions, supporting their sustainable development strategies in response to the 2030 Agenda, promoting an integrated approach for environmental sustainability in planning and implementation for the Sustainable Development Goals. For example, UNEP works closely with 32 countries in Latin America and the Caribbean and is implementing its programme of work jointly with Governments to catalyse a transition towards a low carbon, low-emission, resource-efficient and equitable development based on the protection and sustainable use of ecosystem services, coherent and improved environmental governance and the reduction of environmental risks.

48. Support to middle-income countries has been provided in collecting quality, accessible, timely and reliable disaggregated data to monitor progress in the implementation of the 2030 Agenda. In particular, ECE has assisted middle-income countries in Europe to effectively implement international standards. ECE is preparing guidelines for national reporting mechanisms, which will help countries to provide information on Sustainable Development Goal indicators, and will also develop a generic template that will help countries to produce national plans for statistics related to the Goals. ESCAP has supported Governments in Asia and the

Pacific to establish national targets; the Asia-Pacific Economic Statistics Week, instituted in 2016, was organized in 2017 on the theme of "Strengthening economic statistics for the Sustainable Development Goals". The first subregional workshop, on data and statistics for the Sustainable Development Goals, held in India, facilitated sharing of information and results from national initiatives to integrate the Goals into development plans and mapping of Goal indicators and data availability. UNFPA provided support in collecting and using quality, accessible, timely and reliable disaggregated data, which is the foremost support provided for conducting censuses, including rounds of censuses in 2010 and 2020, and also helped to establish and expand civil registration and vital statistics systems, conduct demographic and health surveys and locate and use alternative and non-traditional sources of data, including remote sensing and big data.

49. In 2016, UN-Women launched a new flagship programme initiative on "Making every woman and girl count", aiming at a radical shift in the availability, accessibility and use of quality data on key aspects of gender equality and women's empowerment. UN-Women also assisted in organizing an international event, held in Bogota from 22 to 24 March 2017, to strengthen the capacities of the national statistical systems of the Andean subregion to produce the information required for reporting of Sustainable Development Goal global indicators and the design of public policies to achieve the Goals by 2030.

50. Middle-income countries are benefiting from the support provided by the United Nations in addressing the consequences of climate change and effective investment for climate change adaptation and mitigation in the agricultural sectors. In the Philippines, UNDP, to protect the incomes of farmers from shocks resulting from natural calamities, introduced a weather index-based climate insurance product that provides for claims to be paid less than 10 days after a disaster. Through a three-year regional project, ESCAP is providing technical and advisory services for the development of innovative climate change financing instruments. ESCAP is jointly implementing a project with ECE in Mongolia on strengthening institutional capacities for developing environmental performance reviews and the sustainability outlook, in partnership with the Ministry of Environment and Tourism, to develop national pathways for Mongolia to implement the 2030 Agenda and to meet commitments under the Paris Agreement and its national biodiversity strategy and action plans.

51. FAO helps the countries to utilize opportunities of using dedicated climate funds in addressing vulnerabilities to climate change. FAO engaged with the Government of Paraguay in preparation of an investment project under the Green Climate Fund. FAO is also discussing with the Central American Bank for Economic Integration the possibility to jointly develop a regional investment programme to address climate adaptation needs related to agriculture in Central America.

B. Engagement of international financial institutions in middle-income countries

52. Middle-income countries are the largest segment of clients of the World Bank Group: 109 of the 189 member countries. In its 2017 document entitled "Forward look: a vision for the World Bank Group in 2030 — progress and challenges", the Group committed to engage with middle-income countries, support them in economic transformation, identify drivers of growth, promote policies to reduce inequality, assist with financial crises and address global public goods. The World Bank Group has extended a total of $62.6 billion to 78 middle-income countries

through the International Bank for Reconstruction and Development and the International Development Association in the past two years.[4]

53. The World Bank Group undertakes a systematic country diagnostic for each developing country, including the upper-middle-income countries, to assess how it can best achieve its twin goals of eradicating extreme poverty and promoting shared prosperity. The diagnostic frames the engagement of the Group with the upper-middle-income countries. The Group has helped middle-income countries to incentivize increased private capital flows through guarantees for corporate investors and support for macroeconomic stability, appropriate legal frameworks, a resilient financial sector and a robust business environment. The Group invests in infrastructure, sustainable energy, improved urban services and strengthened connectivity to provide an enabling environment for capital inflows, and it either invests its own capital or provides political and credit risk insurance products to incentivize private investment.

54. A new World Bank Group initiative, the cascade approach, aims to increase commercial finance for development in middle-income countries by identifying bottlenecks to commercial finance and providing support to address those constraints. The Group has also helped middle-income countries on low-emission development strategies, energy efficiency and green growth, including renewable energy development, energy security, the retrofit of buildings to ensure energy efficiency and access to solar-powered electricity. It also supports emission-trading schemes for air pollutants, urban air quality management, municipal greenhouse gas emissions management, carbon market initiatives, greening approaches to transportation and structuring public-private partnerships on renewable energy.

55. The Group is supporting middle-income countries' health-care systems in addressing costlier non-communicable diseases. Through lending, performance-based incentives have been introduced to encourage primary health-care providers to focus on prevention, early detection and control, thus helping to pre-empt expensive treatment. Lending also supports inter-modal transportation systems, sustainable municipal transportation finance, slum upgrading, low-income housing, urban land management, urban climate adaptation and municipal finance.

56. In working with conflict-afflicted middle-income countries, the World Bank Group has emphasized underserved urban communities and slums, youth employment, preventing violence, community policing, support for displaced and refugee communities and peace processes. An example is its engagement with regard to the Global Concessional Financing Facility, which provides development support to middle-income countries affected by refugee crises around the world.

57. IMF continues to work closely with middle-income economies to ensure macroeconomic stability, promote international trade and support high employment growth and sustainable economic development. In 2016, IMF implemented several internal reforms, most notably on quotas. Brazil, China, India and the Russian Federation are now among the 10 largest members of IMF and more than 6 per cent of quota shares were shifted to emerging market economies and developing countries. Reform of the international monetary system is a policy priority for IMF, in particular strengthening the global financial safety net to reduce the risks and vulnerabilities associated with emerging economies integrating into the global economy.

58. With regard to surveillance of the economic and financial policies of its members, IMF has integrated risk analysis into its operations and has included

[4] This commitment excludes regional projects, the International Finance Corporation and the Multilateral Investment Guarantee Agency. Data as at 19 June 2017.

analysis of spillovers from one country to another in the *World Economic Outlook*. It introduced macrofinancial surveillance for pilot economies in 2015 and will mainstream this initiative for all members in 2017 and 2018. It has also broadened its work on matters that are relevant to middle-income countries, including approaches to macrostructural issues, causes of the global productivity slowdown, revenue mobilization and international tax issues, policies to deal with capital flows and enhanced coverage and knowledge-sharing on gender and inequality issues. Regarding its lending activities, IMF had financing arrangements in place with 23 middle-income economies in mid-June 2017, with total financial commitments of approximately $165 billion. Concessional financing commitments with a zero interest rate from the Poverty Reduction and Growth Trust are in place with five middle-income countries that are eligible for such financing (Côte d'Ivoire, Ghana, Grenada, the Republic of Moldova and Sao Tome and Principe).

59. One of the key areas of the work of IMF with all its members, upon request, is capacity development in fiscal, monetary, financial, statistical and legal areas, which has been growing over the past few years. The amount of staff time going to the middle-income countries was nearly equal to the staff time for low-income countries in 2016. Some examples include holding workshops with the Government of Ghana on revenue forecasting for natural resources revenue, and supporting the revenue department of Grenada to implement reforms that include effective enforcement actions and strengthening managerial capacity. Technical assistance on monetary and financial issues in middle-income economies includes advice on banking supervision, bank resolution and crisis prevention to support the Eastern Caribbean Central Bank; assistance to Paraguay centred on implementing risk-based supervision and implementing inflation targeting; and assistance to Ukraine aimed at enhancing bank supervision, the foreign exchange market, domestic debt issuance, monetary policy and the structure of the central bank.

60. The largest single capacity development project of IMF on statistics is the enhanced data dissemination initiative. Results of the project include surveys of new private capital flows, leading to improvements in statistics related to the external sector and updating the base year for the national accounts.

61. IMF continues to receive requests for technical assistance on anti-money-laundering and combating the financing of terrorism and continues to provide legal capacity development for financial and fiscal law, tax law, corporate and household insolvency and claims enforcement.

IV. Conclusions and recommendations

62. Accounting for 70 per cent of the world population and one third of global GDP, and being home to 73 per cent of the world's poor people, middle-income countries are a widely diverse group by population, size and income level. This group includes the most dynamic economies in the world, but also some of the least developed countries.

63. Middle-income countries in the past played a pivotal role in the global progress towards achieving the Millennium Development Goals. For example, as the world successfully achieved the target set in Goal 1 by reducing the number of people living in extreme poverty from 1.9 billion in 1990 to 836 million in 2015, middle-income countries contributed more than 95 per cent of the global poverty reduction. Looking forward, middle-income countries remain crucial for the global efforts to implement the 2030 Agenda for Sustainable Development.

64. However, middle-income countries still face significant challenges to achieve the Sustainable Development Goals along economic, social and environmental dimensions. Although economic growth for this group as a whole remains the fastest among all country groups in the world, a majority of middle-income countries, including some large economies, have witnessed substantial economic deceleration, or even recession, in the past decade. A particular concern is the widespread stagnation or decline in productivity growth among middle-income countries, heightening the risks of falling into the so-called middle-income trap and slowing or even reversing progress towards eradicating poverty. High inequality, or even a rise in inequality, remains pervasive in middle-income countries, even in those economies with high economic growth. Meanwhile, these countries are facing daunting challenges for sustainably managing the environment and natural resources, reducing pollution and combating global climate change.

65. Moreover, the overall international economic environment, which to a large extent benefited development in many middle-income countries in the period from the 1980s to the early 2000s, has recently become less conducive: international trade flows are sluggish, along with a diminishing pace of expansion of global value chains; capital inflows remain below the levels reached a decade ago; rising discontent with the uneven distribution of the burdens and gains of globalization has fuelled more protectionist and inward-looking policies in some major economies; and international commitments to global policy coordination appear to be waning, particularly in the areas of international trade, immigration, development aid and climate targets.

66. Many middle-income countries have indeed already adopted various policy measures to address these and other challenges as part of their overall efforts to implement the 2030 Agenda. The national efforts can be further enhanced through better and more focused cooperation with the United Nations development system, the international financial institutions, regional organizations and other development partners.

67. The United Nations development system is actively engaged in development cooperation with middle-income countries in multiple areas, such as providing support for good governance, improving the quality of public administration, promoting human rights, achieving gender equality and developing social protection; supporting the development of policies to improve inclusive and sustainable growth; mainstreaming support to South-South cooperation and triangular cooperation; providing support and assessment of national priorities, including formulation and implementation of national sustainable development strategies and other development plans and policy documents; collecting quality, accessible, timely and reliable disaggregated data in order to monitor the progress in the implementation of the 2030 Agenda; and addressing the consequences of climate change and promoting effective investments for climate change adaptation and mitigation in the agricultural sector. Meanwhile, the World Bank Group has extended a total of $62.6 billion to 78 middle-income countries through the International Bank for Reconstruction and Development and the International Development Association in the past two years, supporting middle-income countries in economic transformation, promoting policies to reduce inequality, assisting with financial crises and addressing problems related to the global public goods. IMF raised quotas for some middle-income countries in 2016 and continues to work closely with middle-income countries to ensure macroeconomic stability, promote international trade and support high employment growth and sustainable economic development.

68. Despite these achievements, the universal, ambitious and transformative nature of the 2030 Agenda and the new challenges the world is facing call for a significant

strengthening of cooperation between the United Nations development system and middle-income countries, including improving efficiency, effectiveness and accountability in the ways in which the United Nations development system is engaged in middle-income countries. In this regard, the 2016 quadrennial comprehensive policy review (see General Assembly resolution 71/243) and the report of the Secretary-General entitled "Repositioning the United Nations development system to deliver on the 2030 Agenda: ensuring a better future for all" (A/72/124-E/2018/3) have provided guiding principles. For instance, the three principles set out by the Secretary-General in his report (reinforcing national ownership and leadership; ensuring country-contextual responses rather than a one size fits all approach; and making country-level delivery for all the litmus test for success) are important for guiding improvement in the cooperation between the United Nations development system and middle-income countries.

69. The United Nations development system, as well as the international financial institutions, regional organizations and other stakeholders, should ensure that the diverse and specific development needs of middle-income countries are appropriately considered and addressed, in a tailored fashion, in their relevant strategies and policies. A coherent and comprehensive approach is needed towards individual countries.

70. Many middle-income countries, including upper-middle-income countries, continue to receive financing on concessional terms from different multilateral financial institutions. Official development assistance and other forms of concessional financing are still important for many of these countries and have a role to play in achieving targeted results, so as to meet the specific needs of these countries. Adequate provision of development finance, especially to the countries in the lower-middle-income range, remains crucial for their progress towards the Sustainable Development Goals. Special development cooperation strategies are also needed for middle-income countries afflicted by armed conflict, as well as for the affected neighbouring countries.

71. As reiterated in the previous reports on middle-income countries, it is imperative to ensure that enhancing development cooperation with these countries does not undermine or crowd out in any way the assistance provided to low-income countries, especially the least developed countries, either by limiting the available financial resources or by diverting activities and provision of advice. Moreover, development cooperation with middle-income countries should create positive synergies for other developing countries, for example through trade and investment channels and through sharing of good practices, in particular within the context of South-South cooperation.

72. There is a consensus that country classifications based on per capita income criteria do not effectively reflect the complex nature of development challenges and do not constitute a sufficient basis for determining comprehensive strategies to meet the development needs of these countries. The experience of the Committee for Development Policy in defining the criteria for the categorization and graduation of the least developed countries could be used as a good reference for classifying middle-income countries according to a more appropriate set of multidimensional measures of economic, social and environmental progress, such as multidimensional poverty indices, human development indices and indices for economic and environmental vulnerability. Concrete progress towards developing such a classification scheme for the United Nations system will require a clear mandate from the Member States.

73. Strengthening United Nations development cooperation with middle-income countries, including the necessary reforms in the ways in which the United Nations

development system engages in middle-income countries, would also require middle-income countries to further forge among themselves a consensus on the vision of a comprehensive long-term strategy of the United Nations development system towards these countries. The establishment of the Like-minded Group of Supporters of Middle-Income Countries in 2016 has created an additional opportunity and a platform for this purpose. Closer consultation of the United Nations development system with this Group is encouraged.